CAROLINA, CLINCHFIELD AND OHIO RAILWAY

FIFTY-FIFTH ANNUAL REPORT

For the year ended December 31, 1965

New York, April 7, 1966

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To the Stockholders of

CAROLINA, CLINCHFIELD AND OHIO RAILWAY:

The Fifty-fifth Annual Report of the Board of Directors, for the year ended December 31, 1965, is submitted herewith:

Under an indenture dated October 16, 1924 the properties of Carolina, Clinchfield and Ohio Railway and its subsidiaries were leased to Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company for a period of 999 years from May 11, 1923, at an annual money rental which now and during the remainder of the term of the Lease is 5% on $25,000,000 of Capital Stock, or $1,250,000 annually. The payment of such money rental is to be made in equal quarterly instalments on the first day of January, April, July and October of each year. Quarterly dividends at the rate of 5% per annum on the Railway's $25,000,000 Capital Stock were paid out of the money rental received from the Lessees during 1965.

In addition to the foregoing money rental, the Lessees agreed to pay the interest charges on the outstanding funded debt of Carolina, Clinchfield and Ohio Railway and on any bonds that may be issued to refund the same. The Lease also provides that the Lessees shall pay all charges and other expenses in connection with the payment of such interest, shall pay all taxes upon the franchises and leased property and the income thereof, and shall also pay a limited sum for the annual corporate expenses of the Lessors. All rental payments under the Lease are the joint and several obligations of the Lessees.

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The Lease provides that, in case of the issuance of any additional capital stock of the Railway, it shall be stock of a class which has no right to participate in any dividends declared from the money rental above mentioned, which has been fixed at the amount specified for the purpose of enabling the Railway to pay dividends upon $25,000,000 par value Capital Stock at the rate of 5% per annum, and is not intended to be used for any other purposes whatsoever. In consideration of this money rental, each stockholder agrees with the Lessees that he will vote his stock in such manner as is necessary to carry out certain provisions of the Lease from time to time.

The making of the Lease was authorized by the Interstate Commerce Commission on June 3, 1924 (Finance Docket No. 3131). Possession of the leased properties was delivered to the Lessees on December 1, 1924 and the first payment of the money rental under the Lease was made to the Lessors on April 1, 1925.

Pursuant to the Lease the Railway and the Lessees sold at competitive bidding $16,800,000 principal amount of the Railway's First Mortgage 4½% Bonds, Series B, dated April 1, 1965 and due April 1, 1990, and retired $16,884,000 principal amount of its First Mortgage 4% Bonds, Series A at their maturity date, September 1, 1965. In connection therewith the maturity of the $3,000,000 principal amount First Mortgage Gold Bonds of the Railway's subsidiary, Carolina, Clinchfield and Ohio Railway of South Carolina, was extended from September 1, 1965 to April 1, 1990. The First Mortgage Gold Bonds, owned by the Railway, are pledged and deposited as security under the Corporation's own First Mortgage.

Mr. Frank E. Hanson, an officer and Director since 1953, retired as of December 31, 1965.

Submitted as a part of this report are a summary of the operation of the leased properties, a copy of the consolidated general balance sheet, a consolidated statement of income and earned surplus, a statement of mileage and a summary description of the funded debt.

For the Board of Directors,

W. B. FRANKE, *President.*

MILEAGE

The mileage owned by Carolina, Clinchfield and Ohio Railway and its subsidiary, Carolina, Clinchfield and Ohio Railway of South Carolina, is as follows:

	Miles
Carolina, Clinchfield and Ohio Railway:	
Main line: Elkhorn City, Ky., to N. C.-S. C. state line	258.76
Branch lines: Canay, Va., to Moss, Va.	14.55
Bostic Yard, N. C., to junction S. A. L. Railroad	.79
Carolina, Clinchfield and Ohio Railway of South Carolina:	
Main line: N. C.-S. C. state line to Spartanburg, S. C.	18.02
Total	292.12

The lines of this Company have, since December 1, 1924, been operated by the Lessees under the name of "Clinchfield Railroad Company".

In addition to the foregoing mileage, the Lessees also operate the following mileage under trackage rights held by the Carolina, Clinchfield and Ohio Railway System:

Chesapeake and Ohio Railway, Elkhorn City, Ky.	.13
Southern Railway, Frisco Yard, Tennessee, to Greenland, Tennessee	13.82
Total	13.95

This makes the total mileage operated by the Lessees under the Lease 306.07 miles.

RESULTS OF OPERATIONS BY LESSEES

The following is a summary of the operation of the leased properties for the year ended December 31, 1965, as reported by the Lessees:

Railway operating revenues		$24,701,346.76
Railway operating expenses		14,402,431.02
Net revenue from railway operations		$10,298,915.74
Railway tax accruals		2,530,581.94
Railway operating income		$ 7,768,333.80
Equipment rents	$1,060,790.46	
Joint facility rents	186,687.06	874,103.40
Net railway operating income		$ 8,642,437.20
Non-operating income		69,033.32
Total income		$ 8,711,470.52
Total fixed charges and other deductions		2,977,679.31
Net income to Lessees		$ 5,733,791.21

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ASSETS

Current Assets:		
Cash	$ 7,740.31	
Special deposits	42,300.00	
Rent receivable	312,500.00	$ 362,540.31
Investments:		
Road and equipment property:		
Road	$44,361,957.80	
Equipment	678,674.71	
General expenditures	3,591,674.36	
Other elements of investment	18,214,366.06*	$66,846,672.93
Accrued depreciation		24,520.89
Investment in transportation property less depreciation		$66,822,152.04
Miscellaneous physical property		62,563.22
Total investment less recorded depreciation		$66,884,715.26
Deferred assets:		
Working fund	$ 100.00	
Other deferred assets	1,798,950.25	$ 1,799,050.25
TOTAL ASSETS		$69,046,305.82

* NOTE—The amount of $18,214,366.06 in "Other elements of investment" above is the excess of the costs recorded in the accounts of the Company over the valuation of the property as determined by the Interstate Commerce Commission for rate-making purposes. By agreement with the Commission, proportions of this account will be cleared as substantial retirements are made.

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RAL BALANCE SHEET

R 31, 1965

LIABILITIES

Current Liabilities:		
Interest matured unpaid	$ 120.00	
Unmatured dividends declared	312,500.00	
First Mortgage Bonds and premiums called for redemption	42,180.00	$ 354,800.00
Deferred liabilities		10,135,893.16
Funded debt unmatured:		
First Mortgage 4½% Bonds, Series B:		
Issued	$16,800,000.00	
Retired	—	16,800,000.00
Capital stock		25,000,000.00
Surplus:		
Unearned surplus	$16,862,325.35	
Earned surplus (deficit)	(106,712.69)	16,755,612.66
TOTAL LIABILITIES		$69,046,305.82

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

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CAROLINA, CLINCHFIELD AND OHIO RAILWAY OF SOUTH CAROLINA

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1965

Income:		
Income from lease of road and equipment	$1,994,724.69	
Miscellaneous income	465.10	
Total income for year		$1,995,189.79
Deductions from income:		
Maintenance of corporate organization	$ 35,240.28	
Stamp taxes on refunding bonds	21,779.89	
Interest on bonds	713,039.56	
Amortization of discount on funded debt	9,246.12	
Miscellaneous debits	9,529.24	788,835.09
Net income for year		$1,206,354.70
Earned surplus (deficit), January 1, 1965		(63,067.39)
		$1,143,287.31
Less—Dividends paid ($5.00 per share)		1,250,000.00
Earned surplus (deficit), December 31, 1965		$ (106,712.69)

The Lessees of the Companies' properties, in accordance with the provisions of the Lease, have paid all taxes due or assessed against the rental income therefrom.

SUMMARY DESCRIPTION OF FUNDED DEBT
DECEMBER 31, 1965

CAROLINA, CLINCHFIELD AND OHIO RAILWAY
FIRST MORTGAGE 4½% BONDS, SERIES B:

Dated April 1, 1965, due April 1, 1990, secured by first mortgage on the line of railway and other property from Elkhorn City, Kentucky, to the North Carolina-South Carolina state line, 274 miles, by equipment, and by the entire capital stock ($12,000) and $3,000,000 aggregate principal amount (entire issue) of First Mortgage Gold Bonds of Carolina, Clinchfield and Ohio Railway of South Carolina, extended to April 1, 1990. Amount authorized and issued, $16,800,000; retired through sinking fund, none; outstanding $16,800,000. Bonds unconditionally guaranteed as to principal, premium, if any, interest and sinking fund payments jointly and severally by endorsement by Atlantic Coast Line Railroad Company and Louisville and Nashville Railroad Company. Trustee: Morgan Guaranty Trust Company of New York. Coupon bonds of the denomination of $1,000, registrable as to principal. Registered bonds, without coupons, of the denomination of $1,000 or any multiple of $1,000. Coupon bonds and registered bonds without coupons are interchangeable and transferable. Interest payable April 1 and October 1 at Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, N. Y. 10015. Redeemable on or after April 1, 1970, as a whole or in part, after not less than 45 days published notice at prescribed redemption prices, plus accrued interest. Annual non-cumulative sinking fund of $336,000 to be applied to the purchase or redemption of bonds.

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

BOARD OF DIRECTORS

A. D. Early	New York, N. Y.
W. B. Franke	Rutland, Vermont
J. Calvin Knotter	New York, N. Y.
W. J. McDonald	New York, N. Y.
Floyd T. Starr	Philadelphia, Pa.
H. Everett Woodruff	New York, N. Y.

OFFICERS

W. B. Franke	*President*
A. D. Early	*Vice-President*
W. J. McDonald	*Vice-President*
W. G. Dakin	*Secretary and Treasurer*
E. E. Woodruff	*Ass't Sec'y and Ass't Treasurer*

New York Office — 1 Chase Manhattan Plaza
New York, New York 10005

Stock Transfer Agent
and
Dividend Disbursing Agent

Chemical Bank New York Trust Company
20 Pine Street
New York, New York 10015

Stock Registrar

Bankers Trust Company
16 Wall Street
New York, New York 10015